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Managing People • Franchising • The Law • Role Of The Founder

THE MAGAZINE FOR
GROWING COMPANIES

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WHO'S RUNNING AMERICA'S FASTEST-GROWING COMPANIES

A SURVEY OF THE CHIEF EXECUTIVES OF THE INC. 500



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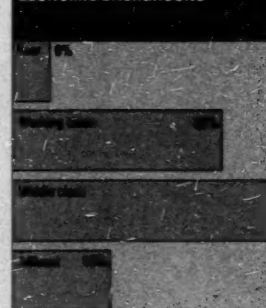
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INSIDER

This isn't just the Philadelphia story. Banks are "surging around the country seeking the profits of small and mid-market lending," says banking consultant David C. Cates. "But if you want to be in a field, you have to make it attractive for good people to work in it."

Which is just what many banks across the country are doing. It's happening at such mammoths as \$215-billion Bank of America as well as at such growing regional banks as Fidelity and \$6-billion Florida National

Bank. In 1984, Florida National created a discrete small-business banking division offering salaries, titles, and management opportunities equal to those available in large corporate lending. The new division's portfolio shows 3,000 loans—up about 30% from this time last year—and accounts for more than \$300 million of the bank's \$3.8-billion total loan portfolio.

In 1982, Bank of America tried a similar experiment. Its mid-market (\$5 million to \$250 million in yearly

sales) loan portfolio, worth \$3.5 billion at the end of its first year, stands at about \$5 billion today, moving from 4.7% to 6% of the bank's aggregate portfolio. So pleased is the California-based bank that it has recently created a fast-track career path for bankers—at present, 635 small-business loan officers—lending to companies with annual revenues of \$5 million or more. Says Scott A. Kisting, senior vice-president in charge of corporate banking operations, "Everybody's going to be doing this." —Neil Margolis

TRADE WARS THROUGH THE AGES PART 3

"(I)t would be better to buy beef produced by the King's subjects, dear though it is, both for the navy and for private individuals, than to buy it at a lower price from foreigners. The money that is spent on the former would remain in the kingdom and would enable His Majesty's poor subjects to pay their taxes, and thus it would return to the King's coffers, while the other [course] would mean money leaving the kingdom."

—Letter of Jean Baptiste Colbert, Louis XIV's ambassador in London, on July 1, 1669



SCORECARD

By Virginia Inman

SUITE CHARITY

Corporate giving earned a good report card in the first half of this decade. From 1979 to 1984, corporate contributions to charitable institutions jumped 65%, from \$2.3 billion to \$3.8 billion, outpacing inflation. Estimates put 1985 giving at 1984 levels. Since 1979, companies also significantly increased the percentage of profits they gave away, from 1.4% to 2.6% of net income on average.

But for many small companies, charity not only begins at home, it stays there. "The smaller a company is, the less likely it is to report any giving at all," says Hayden W. Smith, senior vice-president for research at the Council for Financial Aid to Education. His studies indicate that about a third of companies with less than \$5 million in assets report contributions to the Internal Revenue Service, compared with over 90% of companies with assets of more than \$1 billion.

But entrepreneurs who do give aren't stingy. "Of the companies that give, smaller ones tend to give a higher percentage [of pretax income] than larger companies," says Burt Knauft, executive vice-president of Independent Sector, an association of charities, foundations, and corporate donors. And, Smith notes, small closely held companies often give through the owner's personal account, rather than through the corporation. Here is the record of corporate giving from 1974 to 1984.



RATE CASE

Can Small Business Zap Utility Costs?

THE BILL HAD GONE DOWN TO defeat in Colorado every year since the mid-1970s. Lawmakers refused to establish an office to represent consumers in utility rate cases.

But in 1984, it happened. When Colorado Common Cause and other consumer groups were drumming up support, they made some unusual allies. The National Federation of Independent Business (NFIB) signed on by adding a mandate that the office represent small business, too. Partly because of that support, the bill passed. And one of the office's first acts was to appeal successfully for a cap on certain small-business electric rates.

Small business tends to bear the brunt of increases in utility rates. Large companies generally get a break because rate structures favor large users. Meanwhile, state consumer advocates have had some success looking out for the interests of homeowners.



Jim Henderson, state director of Colorado NFIB, made an unusual pact with Colorado Common Cause.

PATRICIA BARRY LEVY

MAIN STREET, INC.

Forget rebel, forget misfit, forget poor boy makes good. A new study shatters old myths about the entrepreneur.

BY CURTIS HARTMAN

THERE ARE THE WORKAHOLICS IN BLUE JEANS AND FLANNEL SHIRTS, STILL garage tinkerers at heart. There are the corporate mavericks, hand in hand with venture capitalists, looking to go public and make a quick score. You'll also find immigrants chasing the American dream, women and minorities, swashbucklers and techies.

In fact, if you look at the men and women who run the companies of the INC. 500, you can find almost anything you want. All the heroes of entrepreneurial myth are there—the rebels and the misfits enshrined in pop culture, the disadvantaged finally given a place in the sun. But, if you look for someone who typifies the group as a whole, you are more likely to find Henry Stickney.

Norman Rockwell could have painted the portrait. Stickney came from solid middle-class parents who owned a dairy store in suburban Cleveland. In school, Stickney was in the top third of his class, and played first base on the varsity baseball team. He worked weekends and after school at the dairy, and was the first in his family to graduate from college. He's white, Protestant, and Republican, a good family man, married and never divorced. And today he runs his fast-growing medical-specialty company on Business Center Drive in San Bernadino, Calif., with his wife and two sons pitching in.

During the past several months, INC. and *USA Today* have been looking at the men and women who, like Stickney, run the fastest-growing private companies in America, the INC. 500. For years they have been touted as the leaders of an entrepreneurial explosion in America but, until now, they had never been studied as a group. Our interest was less in finding out how they run their businesses than discovering who they are, where they came from, and what makes them tick.

On the pages that follow we will explore the overreaching need of these executives to control their own lives and the businesses they run. We'll look, too, at their marriage patterns and investment patterns, their politics and hobbies, what they risked to build their companies to national prominence, and what they gained. And we'll analyze the differences between company founders and nonfounders, between men and women, between West Coast executives and East.

But more striking than the differences are the similarities among these '80s entrepreneurs in background, style, and values. Forget rebel. Forget misfit. Forget poor boy makes good. As a group, these creators of the new economy come straight from the mainstream, upwardly mobile Anglo-Saxon inheritors of the traditional American dream. Eighty-five percent are married, 7 out of 10 to their first spouse. They have 1.4 children and take two weeks off each year. They play golf, vote Republican, and prefer *Time* to *Newsweek*.

Their values are Main Street as well. Asked to explain their success, most cite such

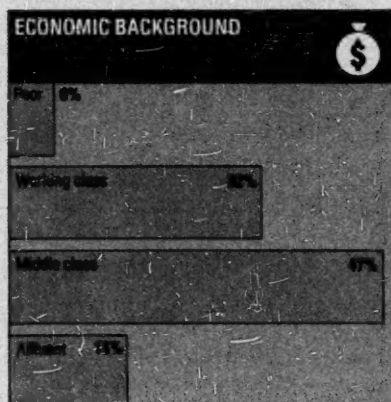
HENRY STICKNEY AND HIS FAMILY FIRM

The entrepreneurial elite is distinctly middle aged, middle class, and middle American.

bedrock virtues as hard work and persistence. They worship a Protestant God at church and self-reliance at the office. And to those entering business, their most frequent bit of advice is, "Do unto others as you would have them do unto you." Tom Duck Sr., of Tucson, seems to typify the attitude toward life and business: "I was raised in Sunday School, and my folks were God-fearing Protestants. I was an ardent Boy Scout. And my real values haven't changed. I always believed that you should be honest and hardworking and, some way, you would be blessed."

Only their success seems unconventional. The INC. 500 executives have not simply done better than their parents—they have done appreciably better, with a median income today around \$100,000. Over the past decade, on average, they have bought houses valued at \$750,000 and amassed a net worth of more than \$4.7 million. And these days they're likely to drive down Main Street in a Cadillac or a Mercedes.

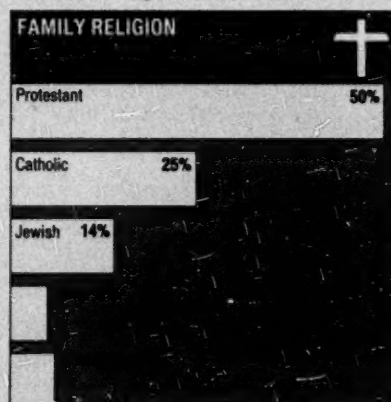
America's entrepreneurial revolution is thought to be profoundly democratic, bringing increasing numbers of women, minorities, and those with lower-class backgrounds into the economic mainstream.



But you'd never know it from looking at the executives of the fast-growing companies of the INC. 500. "This really is a land of opportunity," says Paul Woodruff, CEO of Environmental Resources Management Inc., "for those of us fortunate enough to have the right parents."

The statistics seem to bear him out. Ninety-six percent of the INC. 500 CEOs are white, 96% are men, and 70% are at least third-generation Americans. They grew up in traditional middle-class households: dad, three or more kids, and a mom who stayed at home while they were growing up. Psychologists, no doubt, would find it relevant that a disproportionate number were first children.

Dads' collars were mostly white, not blue. They were salesmen (13%), businessmen (23%), or professionals (19%). But most important, they were entrepreneurially inclined: more than half the CEOs had parents who had started or run a small business at one time. And no doubt their children first learned about running a business while sitting around the kitchen table.



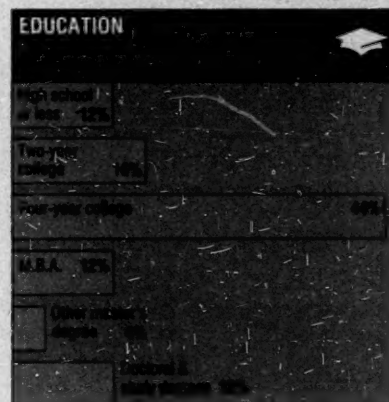
Henry Stickney traces his strengths as a manager back to his parents, a father "who can sell anything to anybody" and a mother "who can organize anyone to do anything." The family dairy store was hardly glamorous,

even with the seven-day workweeks and everyone helping out, it eventually went under. But the father's values would become the son's model. "He wanted to do everything himself, even make his own ice cream and grind his own hamburger. He took that much pride in his work," Stickney remembers. "He had a lot of independence, I guess that's why I'm in business."

If you ask the CEOs what, if anything, they "excelled" at in high school, they'll most often say "getting in trouble." But to hear them reminisce about their exploits is to be reminded of a simpler America, when skipping school, staying out late, or smoking in the boys' room were the accepted forms of adolescent rebellion.

In fact, the INC. 500 CEOs were achievers early on. More than a quarter were honor students in high school, and nearly a third, like Stickney, ranked in the top third of the class. They were active in school government, clubs, and church activities, and a third played varsity sports.

Paper routes and yard work were the traditional ways to earn pocket cash on Main Street, but, like Tom Sawyer and his white-washing, many of the future CEOs went significantly farther than that. Before they turned 21, 15% had a business with other employees, expenses, and profits. Darby McQuade, for example, cornered the local worm market in Richwood, W. Va., hiring his buddies to dig for bait he could sell at the beginning of fishing season. And John Cheney was into photography. He walked the streets of Houston snapping photographs of houses that he later



developed, framed, and sold door-to-door. His enterprise grossed him several hundred dollars a week through high school.

Of course they went to college, studying science or engineering in the main, or business. A quarter eventually took some form of graduate degree, but only 12% hold an M.B.A.

Mostly, they got their business education on the job. Contrary to the suspicion in the corporate boardroom that the successful entrepreneur is a lucky, untutored novice, we found that the INC. 500 CEOs had an average of 10 years of professional experience before they started their own companies, learning "to make mistakes when somebody else is paying for them," as Thomas F. Richardson, now a manufacturer of school supplies, puts it. The majority worked in another start-up or small firm, and fully 45% put in a tour of duty with the *Fortune* 1,000.

With the experience under their belt, they struck out on their own—the median age was 33. The prospect of making lots of money was not critical in their decision, they now say. Most often they cite the chance to be their own boss, to control their own lives, and to prove to themselves and to others that they could do it. Even today, with all their wealth and success, 44% list the pressure to succeed as a major source of stress.

From the start, the business was very much a family affair. The majority had family members involved in the start-up—a wife, most likely, but also children, siblings, and parents. Most of the start-up capital came from their own savings, from mortgages taken on the house, from relatives and friends. And one out of five CEOs relied on his wife's paycheck to keep the family finances from floundering.

Now, a decade later, the business is booming, but the family is still involved. Wives, generally, have been promoted to vice-president, but the title does not precisely define their roles. Judson Beamsley's wife, for example, is now the vice-president for personnel but concerns herself with much more than that. "She has veto power, and has pretty much had it since the beginning," he says. "I worry about what we *could* do, and it's her job to worry about what we *can* do."

Here, too, Henry Stickney fits the mold. Although a little older than the norm, he started out in 1978 with \$2,000 in savings, a

THE NONFOUNDING FATHERS

If you think it's tough to start a company, try taking over from somebody who has.

The people who start their own companies are the stuff of entrepreneurial mythology. But they do not tell the whole story of the INC. 500. How about men like John Castro, who came into an INC. 500 printing operation three years ago as the production manager under the wing of its heart-attack-prone founder, and is now president and a majority shareholder? Or Bill West, a former banker who bought an audiovisual-training firm with his brother? Or Jim McCleary, who was once a national sales manager with a competitor before buying AmeriData Systems Inc.?

"My daughter asked me the other day if I'm an entrepreneur," McCleary remembers. "I said I didn't think so. I'm not the kind of person who starts a business in the basement and eats ham-and-cheese sandwiches and waits until it begins to take off."

The lot of nonfounding CEOs is different. They are less likely to take home the big salary, and boast net worths only two-thirds that of founders. More important, a non-founder doesn't really control the company he runs, with only 49% of the



JIM McCLEARY
No start-up in the basement for him

equity on average; the typical founder-CEO holds 67%. But shed no tears for the new guy in the corner office. When a new CEO comes in he is considerably less likely to have to lower his standard of living to keep the company alive. And he's less prone to complain about stress on the job or at home. He even goes to lunch more often rather than grabbing a sandwich at the desk.

What kind of person wants that kind of job? Here, at least, the clichés are true. He is twice as likely to have been born to affluent or wealthy parents as the founders. In college, he was more inclined to study liberal arts, less inclined to engineering. He is twice as likely to have earned an M.B.A. To our surprise, however, nonfounders are less likely to have put in a stint with the *Fortune* 1,000.

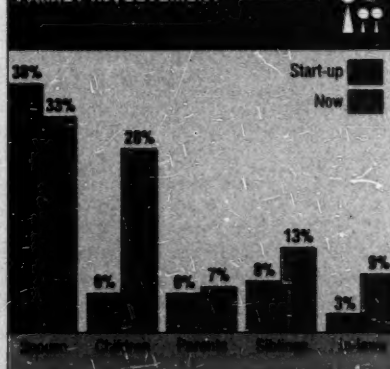
Executives who take over companies

founded by somebody else face a host of problems upon arriving, but the most frequently cited was deciding what to do with the people already there. Soon after settling in at Merrill Corp., John Castro fired 7 of the 30 employees on what the survivors now laughingly call "Black Friday." "There was a lot of dead wood around," Castro recalls.

Bill West moved more cautiously. His somewhat straitlaced banking background did not prepare him for the stress on human relations he found at Resource Inc. "There was a lot of hugging, at least from my point of view," he remembers. Nonetheless, West watched employee performance through the company's busiest season before making his final decisions on who to keep and who to let go. "My brother and I had done a lot of financial analyses before we took the company over," West says, "but we hadn't spent much time on the people problems. You never realize what a cocoon you're in when you aren't running a company—because you don't have to deal with the hiring and firing and benefits."

wife to work the desk, a daughter to do the billing, and a son to make deliveries. Today Western Medical Specialty Corp. has 55 employees and \$10 million in annual sales, with a projected growth next year of 40%. His wife now handles the company's public relations. And, like two-thirds of those surveyed, Stickney works with his kids in the business. Kenneth, the youngest son who recently received an M.B.A., is in charge of the company's new-product development. And son Doug, vice-president of sales and marketing, joined the business after graduating from UCLA.

FAMILY INVOLVEMENT



Like many companies on the INC. 500, Henry Stickney's firm defines a new type of family business in America. It is not the small business that might have been found on Sinclair Lewis's Main Street, the mom-and-pop operation of a simpler time. Its payroll is larger, its geographic reach is wider, and its owners are focused more aggressively on growth. But what our study has revealed is how firmly these entrepreneurs are rooted in their past. They have put to good use not only the economic and educational advantages they inherited, but the Main Street values as well. True to the American dream, they have done better than their parents. And God willing, they hope to see their children do better still.

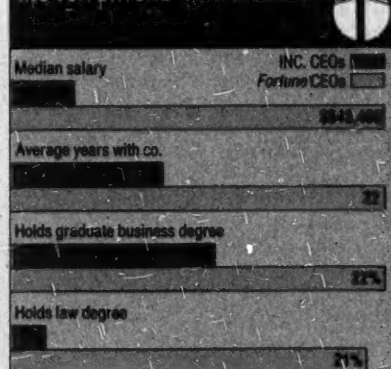
INC. vs. FORTUNE

It's the money you notice most. The *Fortune* 1,000 CEOs made a lot more of it than their small-company brethren. And that's without counting the stock options, the corporate jets, and the low-cost loans.

Maybe they deserve it, if only for their loyalty to the company, or the polished educational background. But so much else is the same. Mostly, these are two very similar groups of white men in suits. Although the *Fortune* 1,000 executives are about 10 years older, both groups are predominantly Protestant, still married to their first spouses, and vote Republican. They both take about three weeks off each year and put in a nearly 60-hour week at the office.

Still, those 60 hours feel different. Ask a *Fortune* 1,000 type how his role has changed over the past five years, and he'll mention "a growing interface with government" followed by "interaction with various external constituencies." For the INC. 500 CEOs, the biggest change has been the ease with which they can pay their bills.

INC. VS. FORTUNE



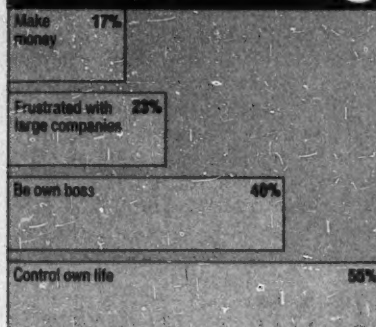
WHAT DO THEY CRAVE? CONTROL

You can hardly blame them for feeling proprietary. Three out of four started the business themselves, and they've been at it for an average of almost 10 years. It's their money that provided most of the seed capital, and their net worth that is still at stake—typically, about \$3 million is tied up in the company. There's a reason they call them *private* companies.

But the demands have changed as these private companies have grown, creating a tension for chief executive officers between wanting to build something of their own and wanting to build something that is bigger than themselves. It is one thing to work 65-hour week after 65-hour week during the start-up, trying, sometimes single-handedly, to turn an idea into a tangible operation. But the start-up is now ancient history for the executives of the INC. 500. The companies are well over the start-up hump, with average sales now in the \$15-million range, and 126 names on the average payroll. Responsibilities are different now. And it's harder to keep control.

In the beginning, control was a fairly simple, albeit elusive, goal. The CEOs wanted "to call the shots, rather than having them shot at you," as Aaron N. Zohn of ZBR Publications Inc.

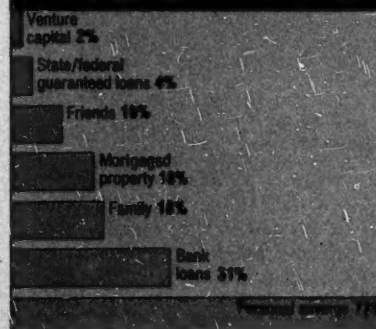
CRITICAL REASONS FOR STARTING COMPANY



Two years at Spiegel Inc., nine transfers. Starting Tek-Aids Industries Inc., a distributor of microcomputer products, was more than just a chance to cut down on his moving bills. It was a way for Beamsley to determine his own destiny for a change.

For others, control has meant having the chance to follow their own ideas with no one to stop them, and no one else to blame for failures. Craig M. Mascolo spent eight months in semiconductors at Motorola Inc. before the frustration drove him out to start his heavy-construction company. "You're never told your ideas are good or feasible or plausible," he remembers. "I like instant results, and they wanted me to put things into the system and let them digest." As he was preparing to launch his firm, Mascolo lived for six months on unemployment checks and his wife's

SOURCES OF CAPITAL USED IN START-UP



puts it. Looking back, the founding CEOs remember the desire to make money as much less critical in their start-up decision than the desire for independence, freedom, and control.

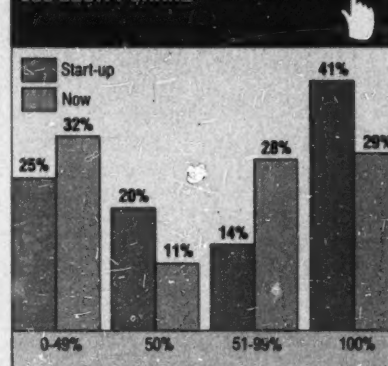
Judson H. Beamsley, for example, just got tired of being moved around. Three years at Montgomery Ward & Co., and six transfers.

modest salary, waiting to get his first break. "But at least it was my own choice," he says.

It is one thing to control your own ideas and time, however, and quite another to keep control when you create a business. But as a group, the INC. 500 CEOs did everything they could to keep power to themselves. They started modest-

ly, 60% of them raising less than \$10,000 in seed capital, most of it from personal savings. Only a handful of them used venture capital; the vast majority preferred taking on debt rather than giving away equity. The typical chief executive kept a majority position—and 41% owned the whole thing.

CEO EQUITY SHARE



the CEOs we surveyed, or provoked so many horror stories.

"If partners are required for financial or emotional reasons, choose very, very carefully, because a divorce in business is just as traumatic and expensive as a personal one," says James P. Gore of Avtec Industries Inc., in Fairfield, N.J. The problem is finding partners "that will complement and contribute," warns Donald L. Eberly of Qualimetrix Inc., in North Highlands, Calif. Others point out that partners may not share your passion, work habits, ethics, or management views.

Before he started manufacturing kitchen-ventilation equipment, Robert L. Luddy had been forced to dissolve a fiberglass company because of "bad blood" between him and a former partner. Luddy had run the business side, and his partner had been in charge of technology, and never the twain did meet. "He'd say, 'We need a bigger plant,'" Luddy remembers, "and it was hard to explain to him why that wasn't good for the business." Luddy has decided that working in tandem was no better than working for someone else. "If I have to be encumbered with a

partner, then I'd rather not do it," he explains.

Edward J. Yohman started an electric equipment manufacturing firm with a group of "nine guys, all amateurs," and remembers the early years as a nightmare. With 10 equally loud voices to listen to, all representing a financial stake, there was a lot of squabbling and very little flexibility or responsiveness. Three dropped out of active involvement when the game got risky, then one of them "later decided to come back in when the going was good." Yohman eventually bought him out. But if Yohman ever starts another company, he'll insist that any partners sign a buyout contract to make the inevitable parting less painful.

Now that their companies are growing and relatively successful, CEOs no longer feel quite so indispensable as they once did: half say they have at least identified a potential replacement inside their organizations. They put in less time at the office—on

average 54 hours per week—which is down an hour a year on average for each of the 10 they have been in business. And although they claim to take off 15 days each year on the average, for most it has been a year since they had a solid week away.

The challenge now is to learn to let go a bit, to share ideas and let others share in the responsibility. Although only 15% say they think it is "very likely" they will turn over day-to-day control of the company in the next year, half hope to be able to delegate more responsibility to their employees. But delegating, they say, proves easier to praise than practice, particularly when you're convinced you can do the job better yourself.

Donald B. Peschke of Woodsmith Publishing Co. has managed to let go of accounting and finance, but keeps his finger in everything else. "I want to be publisher and editor," he admits. "I still do all the writing and half the editing. I want to keep the marketing, too."

"When I think of changing, it gets down to what's going to cause me more grief, to make the change or keep the status quo," says Joe M. Thacker Jr., a jewelry manufacturer. For now, it's an easy choice, "but later, maybe, I'll feel more like stepping back."

Aaron Zohn warns of the dangers of waiting too long for later on. Zohn remembers how stifled he felt as a vice-president and minority stockholder in a graphic art and typesetting business years ago. Now that he is running his own company, he wonders how he can keep good people productive and content if he continues to make all the decisions. How can he keep them from going out and starting a company of their own, just as he did? "That is something I'm still trying to work out," he admits.

One answer favored by management experts is the sharing of equity with employees. But only 27% of the INC. 500 CEOs have given it a try. Herbert Antone, who runs a computer-service firm in Pleasanton, Calif., speaks for many when he talks of the fear of having employees peering over his shoulders all the time, think-

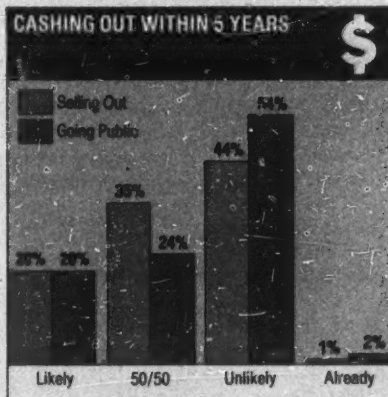
ing they have a say in how the business should be run. Adds Charles T. Stumpf, an insurance broker in Overland Park, Kans., "I took the original risk; it was all my capital. Besides, there are other ways to reward people besides giving them the store."

Most of the INC. 500 companies have been approached by potential buyers, but only the older chief executives believe it is likely that they will sell their businesses within the next five years. Even fewer will consider going public.

"The reporting requirements are onerous," explains Ted Snipes of Greenville, S.C., "and I don't want to run my company based on what I do this quarter." He has built his financial-planning firm to \$36 million in sales by taking the long view, a perspective rarely favored on Wall Street. Publisher Peschke agrees: "A public company gets judged on the numbers. We'd rather have service as our goal, with profits to follow. That takes a long time to explain to investors."

Charles Stumpf is typical in how he approaches the questions of control, ownership, and succession. Like most, he's not convinced that anyone could run his business any better. "I'd love to have someone who could take over," he says. "And they might be able to continue the company. But how well? And for how long?"

"Besides, I like holding all the strings."



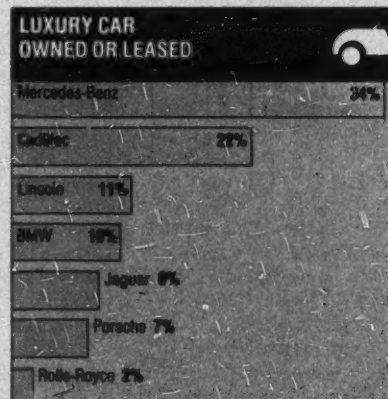
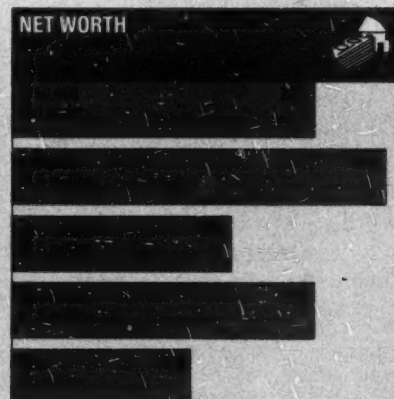
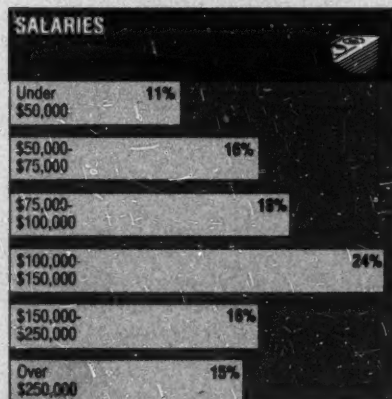
THESE GUYS BET THE RANCH—AND WON

Just a handful of the INC. 500 CEOs admit they gamble for a hobby. Perhaps that's because they gamble for a living.

In our survey, nearly 8 out of 10 admit that they would have been severely damaged, or wiped out completely, if the businesses they'd started had gone under. Most had to face a reduced standard of living to keep the company alive, or miss a paycheck, or take no salary at all to keep things going.

The gamble has now paid off, at least financially. Starting with an average initial capital investment of \$34,000, they now take home solidly upper-class salaries, drive fancy cars, and have amassed an average net worth in the millions. The overwhelming majority say it is all much more than they could have ever hoped for from their previous jobs. And despite all the headaches along the way, 95% say that they'd do it all again.

And what of the other 5%?



"The sacrifices may have been just too great," says Robert A. Satter. "I have been at this game for 15 years now, and for 15 years the light has remained at the end of the tunnel. Don't get me wrong, I love business. But there are limits. There can be too much of a good thing."

On the surface, The Satter Cos. looks to be a good thing, indeed. Over the past 15 years this West Point grad has taken \$40,000 seed capital and transformed it into a real estate development company with revenues of \$84 million and profits of \$1.3 million. Satter owns 68% of the stock.

"But if you ask me today, I'd have to say I'm just not sure if it's all been worth it," he admits. "Everywhere I look I see the signs of the sacrifices I've made—family, friends, personal interests. About the only sacrifices I haven't had to make have been financial ones."

WOMEN: STILL LAGGING BEHIND

Start-ups by women may be spurring the entrepreneurial revolution, but so far, their firms have made them less rich and famous.

The most obvious thing to say about the women of the INC. 500 is that there aren't many of them: only 4% of the total. And if you are looking for other signs of exclusion in the survey data, they are here as well.

Nearly a third of the women said it was the lack of advancement at their old jobs that was an important component in the decision to strike out on their own—that's nearly double the rate for men. And to finance their start-ups, women were twice as likely to have relied on family money. Since the start-up, women have raised only \$1 in outside capital for every \$24 raised by men. And the net worth of these successful female executives is about a third that of their brethren. Salaries still lag far behind.

Ironically, it was the desire to make money more than the urge to be their own boss that most motivated these women to start their own businesses (the men had it the other way around). But once in control of their own firms, women are even more determined than men to keep the reins tight: they are less eager to delegate day-to-day responsibilities, less inclined to take the company public, and less likely to have a replacement in-house.

Women are decidedly more pessimistic about their companies' future, and more conservative about growth. Among the explanations, we were intrigued by the one from Edwina Muhawi, who runs a wholesale bakery in Clovis, Calif.:

"If the women-owned companies aren't raising as much outside capital or hiring as many employees, I bet it's because most of

the married women in the survey probably have husbands who don't want their borrowing to jeopardize the financial picture of the family. I know I've got that problem."

Indeed, you can't help but notice how prominent a role husbands play in the fast-growing companies run by women. Fully 78% of the married women in the survey report their spouses have had some role in their companies over the years. For men, the figure is only 57%. No doubt all this working together generates a sense of shared achievement. It generates friction as well.

"We can't ever cook dinner together, much less work together on new products," says one woman, "so we really have to be

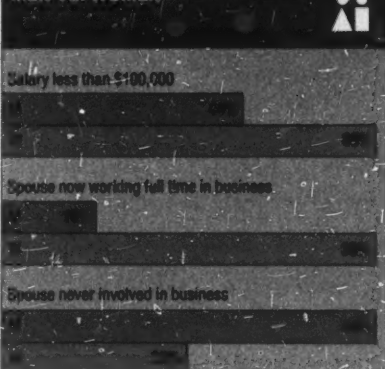
careful to keep the jobs separate." But Judith Kaplan of Ocala, Fla., a distributor of museum gift items who has included her husband in all three of her start-ups, disagrees. "I don't understand those people who say they can't be with their spouses day in, day out. What a terrible statement on the relationship! My husband and I don't

segment. My business is part of both of us and of the relationship itself."

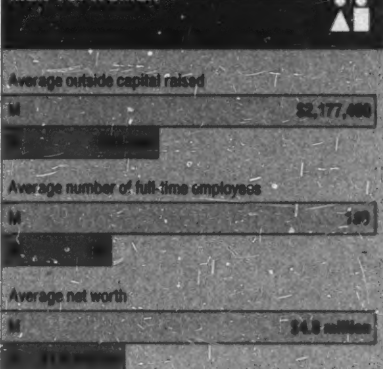
Women executives worry about the kids more, and how their work affects the family. "Regardless of how successful I am," insists Muhawi, "I know that if I'm not providing a nurturing atmosphere at home for two children, I won't be successful."

For those looking to debunk sexual stereotypes, meet Jean Radtke, an advertising executive in Elm Grove, Wis., who left home at 17 to play pool competitively. She now keeps her pool table in the living room, along with her 43 championship trophies.

MEN VS. WOMEN



MEN VS. WOMEN



ENTERPRISE IS BETTER THE FIRST TIME AROUND

If at first you don't succeed, you're probably not on the INC. 500.

It may take practice, practice, practice to get to Carnegie Hall, but the old adage does not seem to apply to business start-ups. Two out of every three founders of America's fastest-growing companies have hit the big time on the first try. Statistically speaking, these winners make it look easy. But don't be fooled: this is a survey that tilts toward winners.

There were some practiced start-up artists in our survey, however. The typical veteran had founded two other companies before the present one—one failure and one success. And a few veterans were downright prolific.

At the age of 26, Tom Duck Sr. of Tucson opened his own appliance store in Indianapolis, down the street from his old employer, Sears Roebuck & Co.



TOM DUCK SR.
An exception to the rule, he struck it rich on #13.

auto-seat repairs, and a family motor coach association—none of them fail-

ures but none a spectacular success, either. Now, at 72 and on his thirteenth company, Duck finally seems to have made a score: a chain of 500 low-cost car-rental franchises, run mostly out of used-car dealerships in 41 states and Canada. "The whole thing is very inspiring and awesome," he says of his latest endeavor.

Actually, Duck was only number two in our survey in the category of most start-up experience. Richard S. Thorp, a retailer and distributor of electronics equipment, in Kent, Wash., claims that he has started 24 businesses during his career. We never found out from Thorp how he did it and how many of those companies have survived. Not surprisingly, he is too busy to chat.

Not surprisingly, he is too busy to chat.

GOOD NEWS FOR REAGAN AND THE GOP

For some years now, Democratic strategists in Washington have been trying to figure out how they might make the entrepreneurial issue their own. Based on our survey, we have some advice for them: forget it.

More than half our CEOs can't ever remember voting for a Democratic Presidential candidate—not peanut farmer Jimmy Carter, not Johnson in the '64 landslide, not even Franklin D. Roosevelt. And some of those who have voted Democratic later came to regret it.

"Yeah, I voted for FDR in the '40 election," admits Tom Duck Sr., the Tucson rent-a-car king. "But I honestly feel that he would have kept that war going if it killed him, because the war kept him in office. And the New Deal? That was just phony. Those projects had no long-range economic value."

Eight out of 10 INC. 500 executives are now solidly in the Reagan camp, but there are a few soft spots. The President and his party suffer a gender gap in our survey of around 20%. And, contrary to all the post-election hoopla about younger voters flocking to the GOP, the youngest of our executives lagged 20 points behind the oldest in supporting the President. Geographically, East Coast respondents were decidedly less conservative and less Republican than their brethren across the country.

CEOs with *Fortune* 1,000 experience, we discovered, were

more virulent in their conservatism than the others. And non-founders described themselves as being to the right of founders. But most surprising to us was that those who came from poor backgrounds were no more inclined to support social welfare programs than those from comfortable backgrounds.

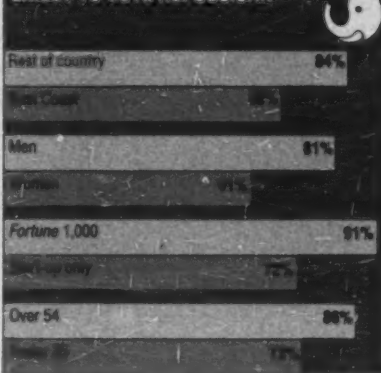
"I've gone through plenty of tough times, and I've found that

the only one who is going to help me out of them is me," explains Roger Orton of Sacramento, whose father, a laborer, kicked him out of the house at the age of nine. "I don't believe in giveaway programs, and people who rely on them, in my opinion, are worthless."

Charles R. McDonald of Willoughby, Ohio, remembers his machinist father as a "good Roosevelt man." But now he votes for "what is best for me and my business." ... All these socialized programs—that's just the members of Congress buying votes."

An almost palpable disgust with welfare and "handouts" seems to motivate and energize the conservative political values of the men and women in our survey. The unfettered marketplace seems to them not just efficient, but fair. As they see it, they are living proof of how it's possible to make good without any government assistance. Or almost none. Like Orton and McDonald, about 40% of our sample took a degree from a government-subsidized state college or university.

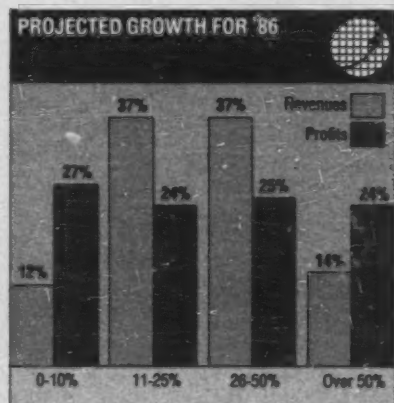
LIKELY TO VOTE REPUBLICAN



WHAT—ME WORRY?

It isn't the competition that keeps them up nights. For all the talk about the rigors of the marketplace, the INC. 500 CEOs ranked their rivals as merely fourth on their lists of worries—after business finance, time commitments, and the pressure to succeed. The reason is probably because they don't have much competition: they've found a niche that allows them to define their own market.

Here are executives who measure the health of their business



by its profitability—things like revenue growth, productivity, and market share are secondary. And on the matter of profits, they are decidedly bullish. The typical executive is forecasting a whopping 35% growth in profits next year on a similar growth in revenues. And employment will climb as well, with the average company plan-

ning to add 17 new names to the 126 already on the payroll.

But David Duffield, who runs a software company in Walnut Creek, Calif., warns his colleagues against too much optimism. "It's when you start thinking you're invincible that you get into trouble," he says. "Just because you make a million dollars in your first five years of business doesn't mean you are going to make another million in the next five."

"I'm not real humble," Duffield admits. "But I try to be."

ARE THINGS REALLY DIFFERENT ON THE COAST?

No sign of a letup in East-West tensions

While we're shooting down myths, let's take a look at the "two-tier theory," which holds that entrepreneurs on the East and West Coasts are more professional than entrepreneurs in the heartland: they hold more advanced business degrees, depend more on venture capital, and have more start-up experience.

You couldn't prove it by the INC. 500 survey. No matter where they live, only one in eight CEOs has an M.B.A. About 2% have venture capital—east, west, and middle. And the average number of earlier start-ups is fairly uniform across the country.

In the category of geographical distinctions, we found more of a clash: between the two coasts. East Coast businesses are bigger, on average, 158 employees to 92. They've been fueled far more by capital: \$3.8 million compared with \$744,000. The East Coast CEO is more likely to have worked for a *Fortune* 1,000 company. He's already assembled a net worth of \$6.5 million, compared with \$3.7 million for the westerners. He's twice as likely to be Jewish, 40% more likely to call himself somewhat liberal, and 70% more likely to vote Democratic. And he's slightly more inclined to head for the Wall Street equity markets in the next five years.

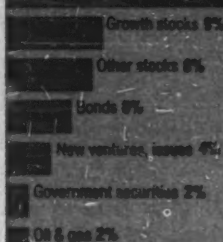
"Aah," the Californian might reply, "but who has the better life? We're twice as likely to dress casually at the office. We complain less about stress, and feel healthier, too. We drive more than half again as many Mercedes. And we're three times as likely to sell businesses entirely."

AS INVESTORS, THEY LIKE TO GAMBLE

If the managers of INC. 500 companies are unconventional in any way, it is in their portfolios.

"A very aggressive posture," is how investment adviser Gary M. Goldberg describes the investment patterns that emerged from our study. What he means is risky. Cable TV systems.

INVESTMENTS: TYPICAL PORTFOLIO



Aircraft. Fine cars. Metals futures. Even fast-food franchises. These are people who know that the way to make big money is not by clipping coupons and following the Dow Jones Industrials. But in the process, some of them have learned how to lose big money as well.

Take Len Wallace of Camarillo, Calif., for example. At one time, he had as much as 30% of his net worth in oil-drilling deals that came his way through a respected brokerage firm. At first he'd get reports saying how wonderful everything was going, but soon these gave way to reports of cost overruns, then dry wells, then rigs that were shut down. Now he is heading up a group

that is suing the brokerage firm to recover the \$750,000 he lost.

The INC. 500 CEOs had a median net worth of \$4.7 million, nearly two-thirds of it tied up in their own businesses. Another 16% is in houses. That still leaves 22%—or about \$1 million—to play around with. And play they do. The average portfolio sets aside 4% for new stock issues and another 10% for growth stocks of one kind or another. And more than a quarter of the CEOs report making substantial investments in new ventures.

Jack Dean of Erie Creative Coatings Inc., in North East, Pa., has 70% of his net worth tied up in new companies, among them an industrial park. "None of them made me rich, but that's the way I make my living," explains Dean, who claims to have had \$200,000 stolen from him once by a shady partner. He now prefers new ventures in which he can take an active part.

James L. Earl of Tazewell, Va., says he has never lost more than \$100,000 in any one of the nine new companies he's backed, most of them related to coal mining and steel. Earl says he puts 80% of his net worth into companies like these because the potential return is higher. "I'm a gambler," he concedes.

Adviser Goldberg was surprised that, with so much money wrapped up in their own firms, the investment strategies of INC. 500 CEOs aren't more conservative. He'd recommend more bonds or real estate. But John D. Chaney sees it another way:

"Once you've been tried by fire—where if the business fails everything goes—then a growth stock doesn't look all that risky. Besides, once you have that base of wealth, you're willing to take a chance."

"DON'T START YOUR BUSINESS WITHOUT IT"

Using credit cards as seed capital

Book royalties and mustering-out money. New home loans, pension funds, insurance policies, and tax refunds. The



LEWIS GOULD

"Credit cards are the best thing since God made rich and gullible aunts."

INC. 500 CEOs have shown some innovation when it comes to finding seed capital.

But now we've found a new wrinkle

entrepreneurs who finance with credit cards.

"I always thought I was the only one," said Lew Gould, a manufacturer of ceramic-tile tools in West Nyack, N.Y., when we called him about plastic financing. "Back then, there was no cash flow here, so I used cards to finance office supplies, typewriters, non-capital goods of all kinds, in addition to using it for travel and entertainment. It's the best thing to happen to seed capital since God made rich and gullible aunts."

Or take H. Bruce Sauls. While other kids collected baseball cards, Sauls had collected bank cards from the age of 12. Then, when he was 26 and ready to start his furniture company, "I just walked into a local bank, plunked down half a dozen cards on the counter, and told the teller to give me the maximum cash allowance. It came to about \$3,700, just enough to cover the bad check I had written to a supplier several days before."

A spokeswoman for American Express said she has heard it all before. "There is no official policy" about start-up financing, she explained—only that "everyone has to pay his bill within 30 days."

HOW THE SURVEY WAS CONDUCTED

In the world of growing, privately held businesses, the INC. 500 define the elite. These are companies that have sustained unusually high rates of growth over a five-year period, starting with sales of \$100,000 to \$25 million. Our purpose was to discover what is distinctive about the CEOs who founded them and run them.

The study was undertaken jointly by INC. and *USA Today*, with the assistance of Gordon S. Black Corp., in Rochester, N.Y.—a marketing research firm that is itself an INC. 500 company. In February, an eight-page questionnaire was mailed to the CEOs of the 1,322 companies that have appeared on the INC. 500 list since it was first published five years ago. The response rate was an extraordinary 46%, providing a sample of 604. After the results of the survey were compiled, our reporters and researchers followed up with phone calls to many of those who responded.

Assistance for this study was provided by Gordon S. Black, David H. Clemm, and Debra Hutchinson in Rochester; Tony Casale of *USA Today*; INC. staff members Sara Baer-Sinnott, Ellen Wojahn, Karen Angeline, Lisa Sheeran, Hope Tompkins; and INC. interns Bonnie Barber, Debra Rosenberg, and Lilia Wiener.

NOTE

ONLY THE FOLLOWING PAGES OF THIS

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